

Message Text

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PAGE 01 FRANKF 03223 270721Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 COME-00 TRSE-00 CEA-01 FRB-03
OMB-01 SS-15 STR-04 NSC-05 SP-02 L-03 CIAE-00
INR-07 NSAE-00 /062 W
-----270738Z 007785 /13

R 261548Z APR 77
FM AMCONSUL FRANKFURT
TO SECSTATE WASHDC 7927
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY MOSCOW

C O N F I D E N T I A L FRANKFURT 3223

E.O. 11652: GDS
TAGS: EEWT, EFIN, COMECON, UR
SUBJ: IIB/IBEC BORROWING

REFS: A. MOSCOW 5525, B. MOSCOW 5102, C. MOSCOW
4432, D. FRANKFURT 2275, E. 76 FRANKFURT 5156

1. DRESDNER BANK SOURCE CONFIRMS IT HAS AGREED TO
MANAGE \$400 MILLION SYNDICATED LOAN TO IIB BANK.
LOAN IS INTENDED TO MEET USSR AND OTHER CEMA MEMBERS'
FOREIGN EXCHANGE NEEDS FOR COMMITMENTS TO ORENBURG
PROJECT INCLUDING PIPELINE, PUMPS, COMPRESSORS, ETC.,
BUT LOAN IS NOT TIED AND LOCAL BANKERS SAY THAT PRO-
CEEDS COULD BE USED FOR BALANCE OF PAYMENTS FINANCING
BEFORE BEING ALLOCATED TO ORENBURG PROJECT. THIS
SOURCE EXPECTS LOAN TO GO THROUGH "TOWARD MID-1977".
WE UNDERSTAND THAT THIS WILL BE THE THIRD BORROWING
FOR ORENBURG FINANCING.

2. DRESDNER BANK LOAN MANAGER DESCRIBES THE LOAN
AS A 6 1/2 YEAR ROLLOVER CREDIT AT 1 1/8
PERCENT OVER LIBOR DURING A 42 MONTH GRACE PERIOD
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PAGE 02 FRANKF 03223 270721Z

AND 1 1/4 PERCENT DURING THE FOLLOWING THREE YEAR
REPAYMENT PERIOD WITH EQUAL SEMI-ANNUAL PAYMENTS
ON PRINCIPAL. THE SYNDICATE IS TO BE COMPOSED
OF 13-15 BANKS, MAINLY GERMAN. A DEUTSCHE BANK
DIRECTOR ACKNOWLEDGED HIS BANK IS ENGAGED IN DIS-
CUSSIONS TO PARTICIPATE. PREVIOUS DRESDNER AND
DEUTSCHE BANK EXPERIENCE WITH IIB LENDING, COUPLED

WITH GERMAN LEGAL FRAMEWORK AND JURISDICTION SURROUNDING THIS SYNDICATION, SHOULD OBVIATE JURIDICAL PROBLEMS WITH IIB CONTRACTUAL STATUS, SUCH AS THOSE RECENTLY ENCOUNTERED BY IBEC IN GREAT BRITAIN.

3. FRANKFURT-BASED U.S. BANKERS AGREE DRESDNER BANK WILL HAVE TO RECRUIT SEVERAL NON-GERMAN BANKS TO REACH TO \$400 MILLION. BANK OF AMERICA MANAGER FOR EASTERN EUROPE STATES HIS BANK HAS NOT BEEN ASKED TO PARTICIPATE; BANK OF AMERICA ALSO EXPRESSES RESIDUAL LEGALISTIC DOUBTS CARRYING OVER FROM ABORTED IBEC LOAN. FIRST CHICAGO, A PARTICIPANT IN THE FIRST TWO IIB LOANS, DECLINED DRESDNER'S OFFER TO PARTICIPATE BASED UPON; (A) THIN INTEREST RATE SPREAD AND STRUCTURE; (B) TOO LONG TERM; AND (C) NEARING BANK'S INTERNAL LIMITS ON SUCH LOANS. THESE SOURCES QUESTION WHETHER A LARGE U.S. BANK WILL PARTICIPATE FOR THESE SAME REASONS, BUT EXPECT TWO OR THREE MEDIUM-SIZED U.S. BANKS TO JOIN

4. FRANKFURT BASED U.S. AND GERMAN BANKERS PROVIDE FOLLOWING VIEWS ON DIRECT BANK-TO -BANK LENDING TO IBEC: (A) DRESDNER HAS NOT RESERVATIONS, BUT DOES NOT CONSIDER THESE TYPICALLY SMALL LOANS PARTICULARLY PROFITABLE; (B) HESSISCHES LANDESBANK SEES NO COMMERCIAL RISK; SINCE SOVEIT UNION IS VIEWED AS ULTIMATE GUARANTOR; (C) FIRST CHICAGO HAS NO PARTICULAR RELUCTANCE TO EXTEND THESE TYPICALLY \$5-\$10 MILLION LOANS TO IBEC; (D) BANK OF AMERICA, PER-CONFIDENTIAL

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PAGE 03 FRANKF 03223 270721Z

HAPS A SPECIAL CASE, NOW APPEARS TO BE REVERSING ITS EARLIER VIEWS AND EXPRESSES SOME HESITATION ON ADDITIONAL BANK-TO-BANK LOANS TO IBEC ON LEGALISTIC GROUNDS. LEHMANN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, LOANS, INVESTMENTS, BANKS
Control Number: n/a
Copy: SINGLE
Sent Date: 26-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977FRANKF03223
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770146-0683
Format: TEL
From: FRANKFURT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770420/aaaaaqnc.tel
Line Count: 101
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 14a21c9f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 MOSCOW 5525, 77 MOSCOW 5102
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2697395
Secure: OPEN
Status: NATIVE
Subject: IIB/IBEC BORROWING
TAGS: EEWT, EFIN, UR, COMECON
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/14a21c9f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009